Irish Life

Standard Fund Threshold at Retirement

PENSION ADVISORY SERVICES

Standard Fund Threshold

The Standard Fund Threshold (SFT) is the maximum pension an individual is allowed at retirement for tax purposes. This is a lifetime limit and includes all pension benefits taken since 7 December 2005.

The Standard Fund Threshold is currently €2,000,000.

At retirement any amount over the SFT is subject to income tax at 40%. This tax is normally deducted from the pension fund. The legislation also allows that this tax could be paid by a payment from the individual or his ARF to the pension administrator which may be of use in some circumstances relating to defined benefit (DB) schemes.

Clients cannot use any tax credits or allowances to reduce this liability and the tax deducted cannot be offset against any other tax liability.

The only exception to this is where standard rate income tax was paid on the retirement lump sum, in which case the tax deducted from the retirement lump sum can be used to offset the tax due on any excess over the SFT, see example below.

		Income Tax	PRSI	USC
Fund Value	€2,200,000			
Standard Fund Threshold	€2,000,000			
Gross Retirement Lump Sum	€500,000 (25% of €2m)			
Tax Free Amount	€200,000			
Balance	€300,000	at 20% = €60,000		
Net Retirement Lump Sum	€440,000			
Excess over SFT	€200,000			
Gross Tax on excess over SFT		at 40% = €80,000		
Less tax deducted from Lump Sum		- €60,000		
Net Tax on excess over PFT		€20,000		
Fund value less tax on excess	€2,180,000			
Fund value available after lump sum	€1,680,000			
If invested in an AMRF / ARF		Will apply at client's marginal rate	Will apply up to age 66.	Will apply at client's rate.
If used to purchase an annuity		Will apply at client's marginal rate	n/a	Will apply at client's rate.
If taken as an immediate lump sum		Will apply at client's marginal rate	Will apply up to age 66.	Will apply at client's rate.

Breakdown of benefits taken

Total Gross Fund:	€2,200,000
Net lump sum received:	€440,000
ARF/AMRF:	€1,680,000
Tax at point of retirement:	€80,000

Personal Fund Thresholds

The standard fund threshold (SFT) was first introduced 7 December 2005 at €5,000,000. The SFT had indexed up to €5,418,085 before it was reduced to €2,300,000 on 7 December 2010. It was reduced again to its current level of €2,000,000 on 1 January 2014.

The table below shows the SFT limits since its introduction

Date of Change	Standard Fund Threshold
7 December 2005	€5,000,000
2006	€5,000,000
2007	€5,165,000
2008 to 6 December 2010	€5,418,085
7 December 2010	€2,300,000
2011 to 2013	€2,300,000
1 January 2014 to present	€2,000,000

Clients with funds greater than €5m on 7 December 2005, greater than €2.3m on 7 December 2010 or greater than €2m on 1 January 2014 had an opportunity to apply for a personal fund threshold (PFT) based on the value of their pensions on that date.

Were a PFT Certificate was received from the Revenue Commissioners, the PFT amount stated on the cert will replace the SFT for that individual.

Retirement Lump Sum

The retirement lump sum option, and how much of this is tax free, will not change for those with a PFT. The first €200,000 of the available lump sum will be tax free, with the next €300,000 subject to income tax at 20%.

For lump sums based on the 25% of fund option, clients with funds greater than €2million may consider taking a lump sum of €500,000 (€440,000 net of tax), as any lump sum taken over this amount would be subject to income tax at their marginal rate, along with USC and potentially PRSI.

For clients with DB scheme benefits the gross lump sum calculation will be as set out in the scheme rules. The trustees may look to deduct tax arising from the excess over the PFT or SFT from the retirement lump sum. However, depending on the commutation factor applied by the DB scheme, it is likely to be more tax efficient for the client to reduce his gross pension. Clients who have other defined contribution or ARF benefits could also consider using those funds to pay the excess tax.

Taking retirement benefits now or later

The legislation does allow that the SFT and each individual PFT can increase each year in line with an earnings factor. However, this increase is at the discretion of the Minister, and there hasn't been such an increase since 2008. Irish Life has raised with the Revenue Commissioners the importance of having the standard fund threshold indexed each year. This is necessary to maintain the real value of the maximum pension benefits.

Clients who are over the SFT or their PFT and have the option to take benefits immediately need to consider if they wish to take retirement benefits now or if they want to wait. Those who take benefits immediately will be aware of their current value, the SFT / PFT limit and if there is any excess. Those who wait to take benefits will not know for certain if they will have any excess over the SFT or PFT, as this will depend on future pension fund growth and any future indexation of the SFT.

In some cases clients may not have the option of taking benefits now, particularly those who have not yet reached retirement age.

Death benefits paid from pre-retirement pension plans are not subject to the SFT, or PFT if applicable.

Dual Private / Public Sector Pension Scheme Encashment Option

Available to: Clients who have both private sector and public sector pensions and the combined value exceeds the SFT or their PFT. Option can only be taken once, on or after age 60 and before retiring from the public sector scheme. Revenue must be notified in advance, at least 3 months before the date of retirement from the public sector benefits.

Tax treatment: Value of the private sector pensions in excess of SFT, or PFT if applicable, can be taken as a lump sum subject to the immediate payment of income tax at marginal rate plus PRSI at 4% and USC at 4%. The amount withdrawn is then excluded from the client's retirement calculation.

How to check defined benefit pension schemes against the SFT

When checking DB pensions schemes against the SFT (or PFT if applicable) the benefits should be split between those accrued up to 1 January 2014 and those accrued after that date. Benefits accrued up to 1 January 2014 are valued using a capitalisation factor of 20, whereas benefits accrued after that date are valued using the factors shown below.

Where a DB scheme gives members a choice of full pension or a retirement lump sum and a reduced pension, the SFT check must be run assuming the member chooses to take the full pension. This applies even if the member takes a retirement lump sum and reduced pension.

Age	Factor
50 (and below)	37
51	36
52	36
53	35
54	34
55	33
56	33
57	32
58	31
59	30
60	30

Age	Factor
61	29
62	28
63	27
64	27
65	26
66	25
67	24
68	24
69	23
70 (and above)	22